Sen. Spencer Coggs

SB 461 - New Markets Tax Credit
Sen. Cmte. on Economic Development

Feb. 10, 2010

Madam Chair, members of the committee.. thank you for holding a public hearing on this legislation.

Senate Bill 461, and its Assembly companion, AB 642, authored by Rep. Barca, propose to establish a state New Markets Tax Credit program in Wisconsin that is patterned after the highly successful federal program that stimulates investment and development in low-income rural areas and cities.

This legislation, and its federal counterpart, are like a "turbo-charge" for investments. And it encourages investment in communities that need it most.

Under the federal program, communities that traditionally have had little or no access to borrowing and investment capital are targeted for investment. With a qualified investment, financiers receive federal tax credits of up to 39 percent. The investments must be made in low-income communities in areas with qualified low-income census tracts.

Low-income census tract communities are those with a 20 percent poverty rate, or where the median family income is at or below 80% of the area median family income.

Here's an example of the federal New Markets Tax Credit at work: In Maryville, Missouri, a poor rural area, a company was established that recovers "carbon black" from scrap tires. The "carbon black" is turned around and used for hoses, gaskets, belts, roofing material, plastic piping and more.

Investors in the plant received a total of 39 percent in tax credits over a 7-year period for staking money on the business. The 7-year period encourages investors to keep their money in the project over that period of time.

Meanwhile, the company created 21 new, permanent jobs that pay above the county average, and 25 additional jobs in construction were required to build the plant.

I cite the example in Missouri to emphasize that this program is not solely for urban areas. Obviously, such a program would apply to cities in Wisconsin. But, the fact is that since the program was created in the year 2000, more of the federal New Markets Tax Credits have gone to investment in poor, rural areas of the United States.

To show you what impact this program can have on Wisconsin, I've distributed a map that shows the census tracts that are qualified for the federal tax credit in Wisconsin. The dark blue designations are areas where the credits apply.

If you look at those areas, you can see that there are five members on this committee who represent districts in those dark blue, low-income communities. And just a word of explanation about the map: In Stevens Point, Racine, Eau Claire, Chippewa Falls, Sheboygan and other cities, the dark blue marks are tiny because the census tracts there are so densely populated. But the "exploded" detail of Milwaukee demonstrates the benefit of such a program in urban areas.

By introducing this legislation, we will be "capitalizing" (excuse the pun) on the success of this federal program and adding to its attractiveness by making the state program roughly parallel with the federal program.

Under the bill, the Department of Commerce would certify financiers who make these kinds of investments in our rural areas and cities to receive a credit against state income and franchise taxes, and license fees paid by insurers. The credit against license fees paid by insurers will "incentivize" insurance companies – which are major investors - to make loans in low-income communities.

The bill was not perfect when first written. Some changes were required. After extensive consultation with experts on this program, we have incorporated these changes to the bill in a substitute amendment.

The most significant change in the substitute amendment is the percentage of the credits offered by the state. While the federal credit is 39 percent, we felt that a lower state credit would be an adequate, additional incentive to attract investors. So the substitute amendment provides a state New Markets Tax Credit of 18 percent. Together, with the 39 percent federal tax credit, this results in a substantial return to investors.

I've distributed a table which shows the combined tax credit on an investment of $1 million. In other words, if I invest $1 million dollars in a development in a poor community, I'll get more than half of it back in tax credits, plus the typical return on a loan. That's good money. That's big money. The kind that can lift people out of poverty and unemployment.

Other changes in the substitute amendment include:

- A provision that would allow an investor to receive both the federal and state tax credits
- And, language that makes it clear that New Markets investments will promote the creation or retention of jobs in the state or will promote other economic developments established by DOC rule.

Madam Chair, and committee members, at this time more than a quarter-million citizens of Wisconsin are out of work.

We need to do all we can. This is a proven program. A highly lauded program. Recently it was named one of the Top 50 Innovations in American Government by an award program endowed by the Ford Foundation and administered by the Harvard Kennedy School of Government.

We need to focus, not like a laser beam, but like a spotlight on the many broad areas of poverty and joblessness in our state. Light up those areas with hope – real hope – the kind that can only be created by investments and job creation.

Thank you.

New Markets Tax Credit

SB 461/AB 642 - New Markets Tax Credit

$1 million Investment

Federal Program

Year 1	5%	=	$50,000 tax credit
Year 2	5%	=	$50,000 tax credit
Year 3	5%	=	$50,000 tax credit
Year 4	6%	=	$60,000 tax credit
Year 5	6%	=	$60,000 tax credit
Year 6	6%	=	$60,000 tax credit
Year 7	6%	=	$60,000 tax credit

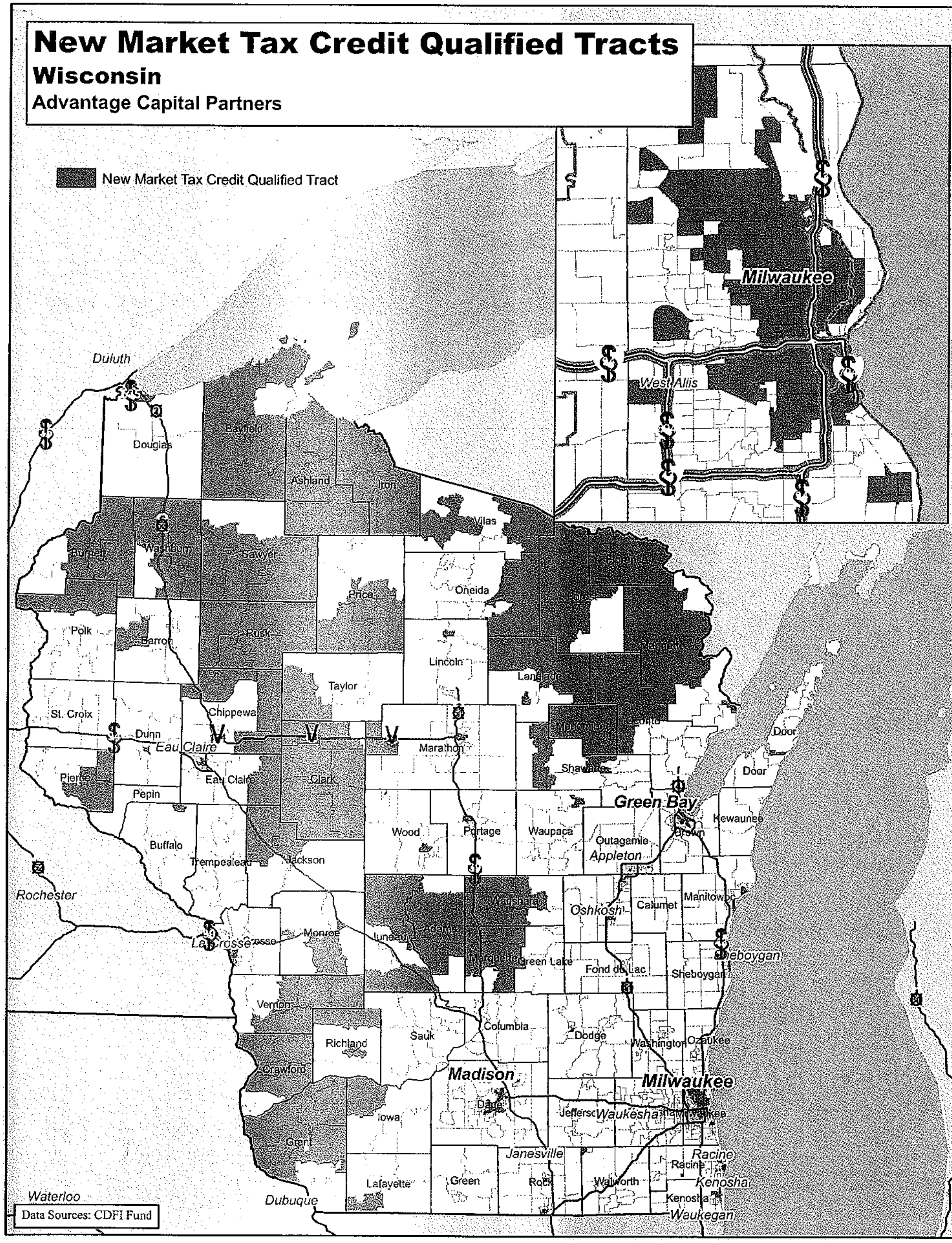
Total Federal Tax Credit $390,000

Proposed State Program (SB 461/AB 642 – substitute amendment)

Year 1	0%	
Year 2	3%	$30,000 tax credit
Year 3	3%	$30,000 tax credit
Year 4	3%	$30,000 tax credit
Year 5	3%	$30,000 tax credit
Year 6	3%	$30,000 tax credit
Year 7	3%	$30,000 tax credit

Total State Tax Credit $180,000

Total Credits $570,000



October, 2006. For mapping information, please contact gisworks@gmail.com.

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February 10, 2010

Senate Committee on Economic Development
New Markets Tax Credits – Senate Bill 461
Representative Peter Barca

Senator Lassa and members of the Senate Committee on Economic Development, thank you for holding a public hearing on Senate Bill 461, which would create a state tax credit program modeled after the Federal New Markets Tax Credit.

This tool is even more important now, as private credit markets have struggled and access to capital for businesses is more difficult.

The Federal New Markets Tax Credit was established in 2000 to encourage private sector investment in our most economically distressed communities nationwide. It attracts capital from the private sector in return for a 39 percent federal tax credit over seven years for a qualified equity investment (QEI) made in a community development entity (CDE). CDEs are required to invest the proceeds in low-income communities which are defined as those census tracts with poverty rates over 20 percent or median family incomes that are less than or equal to 80 percent of the area median family income.

The program has been extremely successful on the federal level and was named one of the top 50 in the "Innovations in American Government Awards" in March 2009.

A 2007 Government Accounting Office report suggests that NMTC increases financial involvement by investors in low-income communities. The report states that over 75% of NMTC investors said obtaining the tax credit played a moderate to very great role in their decision to make an NMTC investment.

The success of the federal NMTC program in attracting capital to low-income communities has led several states, including Illinois, Missouri, Ohio, Florida, Mississippi and Louisiana to adopt similar programs.

The substitute amendment to Senate Bill 461 creates a Wisconsin New Markets Tax Credit of 18% over 7 years, caps the annual allocation at $10 million, and establishes recapture provisions.

A Wisconsin NMTC gives us a significant competitive advantage nationally because few states have a companion program to leverage and attract federal NMTC and so Wisconsin will get a larger share of federal New Markets investments. It will make the state more attractive to highly qualified federal New Markets Tax Credit program investors and will drive hundreds of millions of dollars of capital into small businesses in Wisconsin.

Thank you for your time today and I hope that I can count on your support when Senate Bill 461 comes for a vote before this committee.

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